



County of Los Angeles CHIEF EXECUTIVE OFFICE

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WILLIAM T FUJIOKA
Chief Executive Officer

Board of Supervisors
GLORIA MOLINA
First District

YVONNE B. BURKE
Second District

ZEV YAROSLAVSKY
Third District

DON KNABE
Fourth District

MICHAEL D. ANTONOVICH
Fifth District

September 18, 2007

To: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

A handwritten signature in black ink, appearing to read "Will T. Fujioka", is written over the printed name and title.

ADDITIONAL INFORMATION REGARDING KAISER RATES (ITEM NO. 52 ON THE SEPTEMBER 18, 2007 AGENDA)

At your September 11, 2007 meeting regarding the Medical, Dental, Life Insurance and Disability plans for 2008, you held the matter over to the September 18 meeting. The item was held at my request so we could conduct further negotiations with Kaiser Permanente to attempt to achieve two goals:

- to improve medical plan premium rates for non-represented employees; and
- to obtain Kaiser's commitment to open a full-service clinic with an urgent care facility in south central Los Angeles by a time certain.

In the ensuing negotiations, Kaiser declined to modify its position on the rate issue and provided a qualified commitment on the South Central Clinic. A description of the County demands and the Kaiser response is included in the following sections, and documented in the attachments to this memorandum.

Non-Represented Employee Plan Rates

At our request, Mercer demanded in the attached letter (Attachment I) a reduction of Kaiser's non-represented employee plan rates for 2008. They also requested a meeting to discuss the reasons for our request with the appropriate Kaiser officials, and a written response from Kaiser for consideration by the Board at its September 18, 2007 meeting.

In response to these demands, we met with Kaiser twice and ultimately received the attached letter from Kaiser (Attachment II).

We are aware that Kaiser occasionally makes concessions to employers who agree to "terms of offer" conditions advantageous to Kaiser. Since 2004, the County has set Kaiser HMO rates at parity with Blue Cross HMO rates charged to employees, establishing competitive price neutrality for the two HMOs. Nevertheless, Kaiser has refused to make any rate concessions. Their reasons are as follows:

- Kaiser has provided much information to support its rates;
- Kaiser's rating policy is budget driven to produce the revenue it needs to operate its business on a basis that is fair and consistent for all commercial customers. If Kaiser makes concessions to some customers, it must charge other customers to make up the difference; and
- Kaiser has a contract with the Federal government that contains a "most favored nations" clause which penalizes Kaiser if it makes concessions to other large customers.

Kaiser representatives will be present in the Board room on Tuesday to testify if the Board so desires.

South Central Facility

In our discussions and in its written response, Kaiser did not move beyond the scope of commitment it made in its September 5, 2007 letter regarding the South Central Clinic. As indicated in both the September 5, 2007 letter and the attached letter of response, Kaiser did provide a qualified commitment to open a clinic in late 2008 or early 2009 at a site now under consideration, if the site meets facility and safety requirements, and negotiations with the owner are successful. No commitment on providing urgent care at the facility was made.

WTF:DIL
WGL:FF:mst

Attachment

- c. Executive Officer of the Board
 County Counsel
 Department of Human Resources

MERCER

Health & Benefits

ATTACHMENT I

777 South Figueroa Street, Suite 1900
Los Angeles, CA 90017
213 346 2200 Fax 213 346 2680
marci.burns@mercer.com
www.mercerHR.com

September 11, 2007

Christopher Till
Executive Account Manager
Kaiser Permanente
393 East Walnut Street, Fifth Floor
Pasadena, CA 91188

Subject:

County of Los Angeles Management plan – 2008 Renewal

Dear Chris,

As you are well aware, the 2008 rate renewals were discussed at the Board of Supervisors meeting this morning – and the Supervisors expressed anger and dissatisfaction with Kaiser's 2008 rate proposal for the Management plan. The fluctuation of renewal results and utilization – and the divergence of these from the Southern California health plan results – over the past two years have not been fully explained. Secondly, and as important, Kaiser has not followed through with its prior commitment to provide a full service clinic with urgent care access in the South Central Los Angeles area.

Further discussion and a vote on the renewals were continued until the meeting next week, and Kaiser must respond to the following by the close of business on Friday, September 14, for consideration at that meeting:

1. The County demands a reduction to the proposed 2008 Management plan rates to a competitive level to compensate the County for significant advantages Kaiser enjoys
2. Provide a firm written commitment regarding the timeline for the new full service South Central Los Angeles facility – including urgent care services

We will need to meet in advance of the Board meeting to discuss both of these requests in detail – this meeting has been scheduled for 11:00AM, Friday September 14, at the Mercer Los Angeles office.

We expect that the Supervisors may ask for Kaiser to testify on these issues at the September 18 Board meeting. Kaiser should have available at that meeting the individual(s) with the authority to respond, on behalf of Kaiser, and make any decisions needed regarding these requests from the County.

MERCER

Health & Benefits

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September 11, 2007

Christopher Till

Kaiser Permanente

Should Kaiser not be able or willing to meet in advance of the Board meeting or to attend the September 18 Board meeting, we request a letter specifying the declination to attend.

Sincerely,



Marci Burns

Copy:

Marian Hall, County of Los Angeles

Frank Frazier, County of Los Angeles

Wayne Willard, County of Los Angeles

Jeff Whitman, Mercer

Cindy Streigel, Kaiser

Bill Caswell, Kaiser



September 14, 2007

Ms. Marci Burns
Principal
Mercer Human Resource Consulting
777 South Figueroa Street, Suite 2000
Los Angeles, Ca 90017

Re: County of LA Non-Represented 2008 Renewal – Response to September 11th Mercer Letter

Dear Ms. Burns,

Kaiser Permanente appreciates the opportunity to continue our engagement with both the County of Los Angeles management and Mercer representatives. Our meeting today provided good context around the topics outlined in your September 11 letter: 2008 renewal rates for the non-represented plan (management) and the status of the South Los Angeles medical clinic.

2008 Non-Represented Renewal Rates

Kaiser Permanents shares the County of LA's desire to continually evaluate and understand the changes that have occurred in the inpatient experience of the non-represented population. The "deeper dive" analysis delivered to the County of LA and Mercer on August 31st represented the cumulative results of several months of discussions and evaluation from various resources within Kaiser Permanente; including, underwriting, actuarial services, customer analytics, and data and clinical services. Significant resources have been garnered for the County of Los Angeles in the areas of the data file review, on-site claims review, and new reporting capabilities in the areas of chronic disease management and quarterly experience reports (*Partnership in Health* and *Periodic Utilization Report*). Kaiser Permanente has also provided Mercer with detailed data files for both 2005 (2007 renewal) and 2006 (2008 renewal) containing information currently not available to other strategic customers.

Kaiser Permanente's structure is different than all other California competitors and as an integrated delivery system that owns and operates its own hospitals and medical offices, our approach to developing our renewal premiums is reflective of this unique and successful model. Kaiser Permanente must receive sufficient revenue to run our delivery system. As such, the sum of all revenue must produce the budget to pay for our medical staff and facilities. Our rating methodology is designed to produce the expected revenue from our commercial business in a fair and consistent manner for all customers.

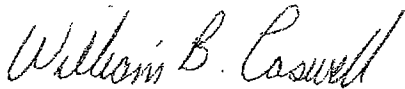
As we have shared in the past, the County of LA is one of Kaiser Permanente's largest employer groups – and is deemed an "SSSG" (Similar Size Subscriber Group). Our agreement with OPM (the Federal governed employer group) stipulates a "favored nations" status, and all SSSGs must abide by the same rating methodology. The status of the County of LA as an SSSG prevents Kaiser Permanente from making downward adjustments to our largest customers. Any reduction provided to the County of LA would have to be applied to the federal government, thus resulting in significant funding. Therefore, Kaiser Permanente is unable to provide any reduction to the 2008 non-represented renewal.

South LA Medical Clinic

Kaiser Permanente is committed to providing services as locally as possible for our members. Over the past 2 and half years, searches have been underway to identify a viable medical office location within South Los Angeles. However, the various facility requirements and safety codes have eliminated almost two dozen potential sites. A meeting has been scheduled with Supervisor Burke (September 17th) to affirm Kaiser Permanente's dedication in our efforts to find a viable location.

Recently, Kaiser Permanente has identified a potential facility at 1550 Manchester. Should the building meet the facility and safety requirements and negotiations are successful, the opening of a clinic could be as soon as late 2008 or early 2009. And, of course, we welcome any support from the County of LA or other interested parties in finding a suitable location.

Sincerely,



William B. Caswell
Sr. Vice President, Operations

CC:

Marian Hall, County of LA
Frank Frazier, County of LA
Wayne Willard, County of LA
Jeff Whitman, Mercer
Cindy Striegel, Kaiser Permanente
Christopher Till, Kaiser Permanente